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# Checklists and illustrative financial statements for colleges and universities : a financial reporting practice aid, June 1994 edition

American Institute of Certified Public Accountants. Technical Information Division

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# **AICPA**

**JUNE 1994  
EDITION**

## ***Checklists and Illustrative Financial Statements for Colleges and Universities***

*A Financial Accounting and  
Reporting Practice Aid*

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**AMERICAN**

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- Checklists and Illustrative Financial Statements for State and Local Governmental Units*



# AICPA

JUNE 1994  
EDITION

## ***Checklists and Illustrative Financial Statements for Colleges and Universities***

*A Financial Accounting and  
Reporting Practice Aid*

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*Checklists and Illustrative Financial Statements for Colleges  
and Universities has not been approved, disapproved,  
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of the American Institute of Certified Public Accountants  
or the Financial Accounting Standards Board and has no  
official or authoritative status.*

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JUN 15 1994

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# CHECKLISTS AND ILLUSTRATIVE FINANCIAL STATEMENTS FOR COLLEGES AND UNIVERSITIES

.01 The checklists and illustrative financial statements included in this section are designed to assist the independent auditor in reporting on financial statements of colleges and universities. The checklists and illustrative financial statements are not designed to be applied to the financial statements of governmental colleges and universities.

.02 The checklists and illustrative financial statements have been developed by the staff of the Technical Information Division of the AICPA as nonauthoritative practice aids. Readers should be aware of the following:

- The checklists and illustrative financial statements are “tools” and in no way represent official positions or pronouncements of the AICPA.
- The checklists and illustrative financial statements have been updated through Audit and Accounting Guide, *Audits of Colleges and Universities* (with conforming changes as of May 1, 1994), SAS No. 72, and AICPA Statement of Position No. 93-8. The checklists and illustrative financial statements exclude references to:

Disclosures that have evolved as a matter of practice or from guidance contained in nonauthoritative sources;

Disclosures that are not unique to colleges and universities, e.g., pension plans, postretirement benefits other than pensions, postemployment benefits, lease commitments, off-balance-sheet risks, concentrations of credit risk, the fair value of financial instruments, capitalization of interest, long-term debt, extinguishment of debt, subsequent events, related-party transactions; and

Disclosures relating to SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. These disclosures have *not* been incorporated into this edition of the checklist because few organizations have adopted these pronouncements at this time. The 1995 edition of this checklist will be revised to reflect these two pronouncements.

- The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.
- The checklists and illustrative financial statements should be used by, or under the supervision of, persons having adequate technical training and proficiency in the application of generally accepted accounting principles and generally accepted auditing standards.
- The checklists and illustrative financial statements do not represent minimum requirements and do not purport to be all-inclusive. The referenced standards should be reviewed if clarification is needed to determine whether the disclosure indicated is required or suggested, and to what extent each disclosure is relevant to the statements being presented.

.03 Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. If you have further questions, call the AICPA Technical Hotline.

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# Introduction

.01 Not-for-profit colleges and universities (including community and junior colleges) are unique institutions. Service, rather than profit, is the objective of an educational institution. As such, the primary purpose of accounting and reporting is to account for resources received and used rather than for the determination of net income. Often, there is no relationship between the fees charged and the actual expenditures for program services. Philanthropic sources may specify the particular program, service, or fund to which their contributions are to be applied. Also, nonexpendable gifts generally must be maintained to produce income to be used for general or specific programs. Some nonexpendable resources are restricted as to use. Over a period of time, the principles and practices of fund accounting were developed to properly account for a diversity of resources and their use.

.02 Many not-for-profit colleges and universities rely heavily on debt financing to augment traditional sources for their capital needs. Consequently, there is a greater need for accountability to creditors. Further, educational institutions often seek donor contributions, which creates an additional need for financial information.

.03 Literature dealing with financial accounting and reporting by colleges and universities dates as far back as 1911. With the coordination and cooperation of representatives of the National Association of College and University Business Officers (NACUBO), a manual entitled *College and University Business Administration* (the Manual) was developed.

.04 In 1973, the AICPA published *Audits of Colleges and Universities*, which derived much of its theoretical content from the Manual. In 1974, the Accounting Standards Division of the AICPA issued SOP 74-8, *Financial Accounting and Reporting by Colleges and Universities*. The purpose of the SOP was to bring to practitioners' attention amendments to the Guide recommended by the AICPA Accounting Standards Task Force on Colleges and Universities. SOP 74-8 has been integrated into Chapters 5, 6, and 11 and Appendix A of the Guide.

.05 In 1990, NACUBO, in association with KPMG Peat Marwick, replaced Part 5 of the Manual with a new publication entitled *Financial Accounting and Reporting Manual for Higher Education*.

.06 Financial statements of educational institutions generally include a balance sheet, a statement of changes in fund balances, and a statement of current funds revenues, expenditures, and other changes.<sup>1</sup> The basic financial statements may be accompanied by supplemental schedules that present additional facts related to the basic financial statements, statistical data, or other information.

.07 The balance sheet may be presented with funds arranged sequentially in vertical order or in columnar form with a column for each major fund group.

.08 The statement of changes in fund balances sets forth essentially the same information as a statement of changes in financial position. Changes in fund balances may be presented in a columnar fashion in a single statement or in separate statements for each major fund group. Significant resources or expenditures (such as financing activities and investments in plant) that are not included in the statement of changes in fund balances may be separately disclosed in a note or elsewhere in the financial statements.

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<sup>1</sup> In June, 1993, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, which requires that all not-for-profit organizations present a statement of financial position, a statement of activities, and a statement of cash flows. The Statement is effective for annual financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statement is effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged.

Until the new standard is adopted, the statement of cash flows is optional for colleges and universities. Colleges and universities do not present a statement of changes in financial position because the statement of changes in fund balances includes most of the same information.



.09 The statement of current funds revenues, expenditures, and other changes is a statement unique to educational and similar institutions. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses. Variations in format and presentation may be desirable in certain instances.

.10 For adequate disclosure, all separately incorporated but related units for which the reporting institution is fiscally responsible (such as university presses, intercollegiate athletics, and research foundations) should be (1) included in the financial statements, (2) adequately disclosed by notes, or (3) presented in separate financial statements accompanied by and cross-referenced in the basic financial statements of the institution.

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# ***Checklists—General***

.01 Many auditors and accountants find it helpful to use checklists as practice aids in the preparation of financial statements and reports. Some firms have developed their own checklists for internal use and may also have specialized checklists to meet the needs of their practices, such as checklists for clients in particular industries or clients that report to the SEC. Some state CPA societies have developed checklists as practice aids that may be available to other practitioners, as well as to their own members. Some commercial publishers also include checklists in certain of their publications.

.02 Checklists typically consist of a number of brief questions or statements that are accompanied by references to the appropriate, existing authoritative literature. The extent of detail included in checklists varies with the judgment of the preparers on how extensively to refer to and highlight authoritative literature without developing a checklist that is too long and unwieldy. Accordingly, checklists may serve as convenient memory aids but cannot be used as a substitute for direct reference to the authoritative literature.

.03 Checklists usually provide for checking off or initialling each question or point to show that it has been considered. The format used herein is a typical one; it provides for “yes,” “no,” and “not applicable” answers and presumes that remarks would be prepared on separate cross-referenced memorandums. Some preparers, however, prefer to include space for remarks in the body of the checklist, while others prefer alternative checklist formats. For example, a checklist format may provide for the following set of answers: “not applicable,” “not material,” “in statements” and “in notes” (with provisions for indicating a cross-reference to the specific statement caption or note). Another format may provide for only two answers, “disclosed” and “not applicable.” Firms and practitioners who develop their own checklists should adopt formats that suit their needs and preferences.

.04 Checklists are generally accompanied by caveats that include all of the following points:

- Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.
- The checklists are not all-inclusive and are not intended to present minimum requirements.
- Users need to modify the checklists for any pronouncements issued subsequent to those mentioned in the checklist.

.05 If widespread circulation is expected, the preparers also generally stress the nonauthoritative or unofficial status of the checklists and disclaim responsibility for the way they may be used.

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# Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

## .02 Explanation of References

SFAS = FASB Statement of Financial Accounting Standards

AC = Reference to section number in *FASB Accounting Standards—Current Text*

AAG-COL = AICPA Audit and Accounting Guide, *Audits of Colleges and Universities* (with conforming changes as of May 1, 1994)

SOP = AICPA Statement of Position

APP. A = Appendix A of AAG-COL

## .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>I. General</b>			
<b>A. Financial Statements</b>			
1. Does the institution present a:			
a. Balance sheet?	_____	_____	_____
b. Statement of changes in fund balances?	_____	_____	_____
c. Statement of current funds revenues, expenditures, and other changes? [AAG-COL, pars. 2.07 and 11.01]	_____	_____	_____
2. Did the institution consider presenting the optional supplemental schedules listed in AAG-COL, par. 11.10?	_____	_____	_____
<b>B. General Presentation and Disclosure</b>			
1. Do the net increases/decreases reported on the statement of current funds revenues, expenditures, and other changes equal the amounts reported as net changes in unrestricted and restricted current funds in the statement of changes in fund balances? [AAG-COL, par. 11.03]	_____	_____	_____
2. Are the permissible variations in financial statement presentation format considered? [AAG-COL, pars. 11.05—11.09]	_____	_____	_____
3. For reporting purposes, are similar funds combined into fund groups? [AAG-COL, par. 2.03]	_____	_____	_____
<b>II. Unrestricted Current Funds (Balance Sheet)</b>			
<b>A. Gifts, Bequests, and Grants</b>			
1. Are any unrecorded pledges of gifts (including uncollected subscriptions, subscription notes, and estate notes) disclosed in the footnotes? <sup>1</sup>	_____	_____	_____

<sup>1</sup> In June, 1993, the FASB issued SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, which, when adopted, will affect the accounting and disclosure of pledges. The Statement is effective for financial statements issued for fiscal years beginning after December 15, 1994, except for organizations with less than \$5 million in total assets and less than \$1 million in annual expenses. For those organizations, the Statement is effective for fiscal years beginning after December 15, 1995. Earlier application is encouraged. These disclosures

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
a. If answer is yes, are the gross amounts by time periods over which the pledges are to be collected disclosed?	_____	_____	_____
b. Are any restrictions as to use disclosed? [AAG-COL, par. 2.12]	_____	_____	_____
2. Are unfunded grant awards for which the institution has not yet performed services not recorded, and the amount of such uncollected grant awards at the balance-sheet date considered for disclosure? [AAG-COL, par. 2.14]	_____	_____	_____
<b>B. Investments Exclusive of Physical Plant</b>			
1. Are investments in depreciable assets reported net of an allowance for depreciation or depletion? [AAG-COL, par. 2.15]	_____	_____	_____
2. Are interfund sales of investments recorded in the purchasing fund at fair market value?	_____	_____	_____
a. Is the difference between cost or carrying value and fair market value accounted for in the selling fund in the same manner as realized gains and losses? [AAG-COL, par. 2.17]	_____	_____	_____
3. Is the total performance (yield and gains/losses) of the investment portfolio (based on cost and market value) disclosed? [AAG-COL, par. 2.17]	_____	_____	_____
<b>C. Interfund Borrowings</b>			
1. Are temporary interfund borrowings (usually less than to one year) reported as assets of the fund group making the advances and as liabilities of the fund group receiving the advances? [AAG-COL, par. 2.24]	_____	_____	_____
2. Are advances from unrestricted current funds or quasi-endowment funds to other fund groups recorded as permanent transfers (unless there is an expectation of repayment within a reasonable period of time)?	_____	_____	_____
a. Are the terms of borrowings and repayments disclosed? [AAG-COL, par. 2.25]	_____	_____	_____
3. If one bank account is maintained for more than one fund, is the cash balance split among the funds in the financial statements?	_____	_____	_____
a. If a fund has an overdraft, is an interfund borrowing shown? [AAG-COL, par. 2.25]	_____	_____	_____
<b>D. Encumbrances</b>			
1. Are encumbrances representing outstanding purchase orders and other commitments for materials and services not yet received excluded from expenditures and liabilities?	_____	_____	_____
a. Are designations or allocations of fund balances made or disclosures provided when such commitments are material? [AAG-COL, par. 2.10]	_____	_____	_____
<b>E. Funds Held in Trust by Others</b>			
1. Are funds held in trust by others excluded from other funds administered by the institution if such funds are neither in the possession nor control of the institution?	_____	_____	_____
a. Are these funds shown parenthetically in the endowment and similar funds group or in the notes?	_____	_____	_____

(Footnote Continued)

have *not* been incorporated into this edition of the checklist because few organizations have adopted these pronouncements at this time. The 1995 edition of this checklist will be revised to reflect these two pronouncements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<p>b. If the institution has a legally enforceable right or claim to such funds (including those rights as to income), are the funds reported as assets and properly described? [AAG-COL, par. 2.26]</p>	_____	_____	_____
<p>2. If the funds are established under an irrevocable trust (with no discretionary power resting with the trustees as to distribution of income), is the income included as endowment income with notation of the amount or separately stated? [AAG-COL, par. 2.27]</p>	_____	_____	_____
<p>3. If the funds are established under revocable trusts, or if the trustees have discretionary power as to distribution of income, are the discretionary amounts of income reported as gifts? [AAG-COL, par. 2.27]</p>	_____	_____	_____
<b>F. Institutions Operated by Religious Groups</b>			
<p>1. Is the institution accounted for separately from the sponsoring religious group? [AAG-COL, par. 2.28]</p>	_____	_____	_____
<p>2. Are facilities that are made available to the institution disclosed with any related indebtedness? [AAG-COL, par. 2.28]</p>	_____	_____	_____
<p>3. Is the value of services contributed by the religious group reported?</p> <p>a. Is the gross value of the services recorded as expenditures by department or division and a like amount recorded as gift revenue?</p> <p>b. Is the gift revenue reduced by the volunteers' maintenance, living costs, and personal expenses incurred that have no counterpart in a lay employee relationship? [AAG-COL, par. 2.29]</p>	_____	_____	_____
<p>4. If the institution elects to report the relative value of contributed services by comparison with the average return on endowment fund investment:</p> <p>a. Is this information limited to the notes to the financial statements?</p> <p>b. Is the imputed capitalized value of such contributions excluded from the balance sheet? [AAG-COL, par. 2.31]</p>	_____	_____	_____
<b>G. Fund Balances</b>			
<p>1. Are the components of unrestricted current fund balances (auxiliary enterprises, reserve for encumbrances, other internally generated funds, etc.) disclosed, either in the balance sheet or in the statement of changes in fund balances? [AAG-COL, pars. 3.08, 5.08, and 5.09]</p>	_____	_____	_____
<p>2. Is a clear distinction between the balances of funds that are externally restricted and internally designated maintained and disclosed in the financial statements? [AAG-COL, pars. 2.08, 4.01, 5.02, and 5.03]</p>	_____	_____	_____
<p>3. If endowment fund investments are pooled and if the institution maintains an endowment income stabilization reserve, is the unrestricted investment income set aside for the reserve reported on the balance sheet as an allocation of the unrestricted current funds balance? [AAG-COL, par. 5.38]</p>	_____	_____	_____
<b>III. Restricted Current Funds (Balance Sheet)</b>			
<p>A. If the individual assets and liabilities (but not the fund balances) of unrestricted and restricted current funds are combined for reporting purposes, are borrowings between unrestricted and restricted funds disclosed by footnote or other appropriate means? [AAG-COL, pars. 4.02 and 5.07]</p>	_____	_____	_____
<p>1. In all cases, are the restricted current fund balances disclosed separately in the financial statements and appropriately classified? [AAG-COL, par. 4.02]</p>	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Do additions to restricted current funds include:			
1. Restricted gifts for specific operating purposes?	_____	_____	_____
2. Restricted endowment income earned or distributed?	_____	_____	_____
3. Contracts, grants, and appropriations received from private organizations or governments for research, public service, or other restricted purposes?	_____	_____	_____
4. Income and gains from investments of current restricted funds?	_____	_____	_____
5. Consideration of further breakdowns to show amounts, if any, restricted to auxiliary enterprises, hospitals, and independent operations, if such activities are the beneficiaries of restricted current funds? [AAG-COL, pars. 4.07 and 5.10]	_____	_____	_____
C. Do charges to restricted fund balances include:			
1. Direct expenditures and mandatory transfers?	_____	_____	_____
2. Refunds to donors and other external agencies?	_____	_____	_____
3. Losses on investments of current restricted funds?	_____	_____	_____
4. Nonmandatory transfers?	_____	_____	_____
5. Transfers to unrestricted revenues representing indirect cost recoveries on appropriate programs? [AAG-COL, pars. 4.07 and 5.11]	_____	_____	_____
D. If endowment fund investments are pooled and if the institution maintains an endowment income stabilization reserve, is the restricted investment income set aside for the reserve reported on the balance sheet as an addition to the fund balances of the restricted current funds? [AAG-COL, par. 5.38]	_____	_____	_____

#### **IV. Current Funds Revenues**

##### **A. General**

1. Do current funds revenues include:			
a. All unrestricted gifts, grants, and other resources earned during the reporting period?	_____	_____	_____
b. Restricted resources to the extent such funds are expended?	_____	_____	_____
c. Certain intra-institutional transactions (e.g., the billed price of materials or services produced by one department for another)? [AAG-COL, pars. 5.12 and 5.14]	_____	_____	_____
2. Do current funds revenues exclude:			
a. Restricted current funds received but not expended?	_____	_____	_____
b. Resources restricted by external persons or agencies to other than current funds?	_____	_____	_____
c. Service department revenues resulting from interdepartmental transactions that are essentially interdepartmental transfers of costs? [AAG-COL, pars. 5.12 and 5.13]	_____	_____	_____
3. If the institution presents a columnar statement of current funds revenues, expenditures, and other changes:			
a. Are unrestricted and restricted revenues segregated?	_____	_____	_____
b. Is an amount equivalent to restricted expenditures reported as restricted revenues? [AAG-COL, par. 4.08]	_____	_____	_____
4. If the institution does not distinguish restricted from unrestricted sources of revenue in the statement of current funds revenues, expenditures, and other changes, are the major sources of restricted revenues disclosed? [AAG-COL, par. 4.08]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
5. Are unrestricted and restricted current funds revenues grouped into the following major classifications by source of funds:			
a. Tuition and fees?	_____	_____	_____
b. Federal appropriations?	_____	_____	_____
c. State appropriations?	_____	_____	_____
d. Local appropriations?	_____	_____	_____
e. Federal grants and contracts?	_____	_____	_____
f. State grants and contracts?	_____	_____	_____
g. Local grants and contracts?	_____	_____	_____
h. Private gifts, grants, and contracts?	_____	_____	_____
i. Endowment income?	_____	_____	_____
j. Sales and services of educational activities?	_____	_____	_____
k. Sales and services of auxiliary enterprises?	_____	_____	_____
l. Sales and services of hospitals?	_____	_____	_____
m. Other sources?	_____	_____	_____
n. Independent operations? [AAG-COL, par. 5.15]	_____	_____	_____
<b>B. Tuition and Fees</b>			
1. Are tuition and fees assessed against students for educational purposes reported net of refunds? [AAG-COL, par. 5.16]	_____	_____	_____
2. Are tuition and fee remissions or exemptions assessed and reported as revenue, even if there is no intention of collecting from the student? [AAG-COL, par. 5.16]	_____	_____	_____
3. Are revenues from fees on which there are binding external restrictions (such as for debt service or plant expansion) excluded from student tuition and fees? [AAG-COL, par. 5.17]	_____	_____	_____
4. Are charges for room, board, and other services excluded from student tuition and fees?	_____	_____	_____
a. If an all-inclusive charge is made for tuition, room, board and other services, is a reasonable allocation made between revenues from tuition and from sales and services of auxiliary enterprises? [AAG-COL, par. 5.21]	_____	_____	_____
5. Are tuition and student fee revenues that encompass two fiscal years (e.g., a summer session) reported totally within the fiscal year in which the program is predominantly conducted? [AAG-COL, par. 5.22]	_____	_____	_____
6. If some portion of total tuition or fee receipts is pledged under bond indenture agreements, are total receipts reported as unrestricted current funds revenues and the pledged amount reported as a mandatory transfer to plant funds? [AAG-COL, par. 5.18]	_____	_____	_____
7. If some portion of tuition or fees is allocated by action of the governing board, or subject to change by the governing board alone, for other than operating purposes (such as financing construction), are all tuition charges or fees reported as unrestricted current funds revenues and the portion allocated reported as a nonmandatory transfer to the appropriate fund group (e.g., plant funds)? [AAG-COL, par. 5.19]	_____	_____	_____
8. Are tuition and fee revenues paid to the state to offset the state appropriation added to tuition and fees and deducted from state appropriations? [AAG-COL, par. 5.23]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
<b>C. Governmental Appropriations</b>			
1. Do governmental appropriations include:			
a. All unrestricted amounts received for current operations from, or made available to the institution by, legislative acts or the local taxing authority?	_____	_____	_____
b. Restricted amounts from those same sources to the extent expended for current operations?	_____	_____	_____
(1) Does this restricted category include amounts paid directly into a state or local retirement system by the appropriating government on behalf of the institution? [AAG-COL, par. 3.27]	_____	_____	_____
2. Do governmental appropriations exclude:			
a. Governmental grants and contracts?	_____	_____	_____
b. Institutional fees and other income reappropriated by the legislature to the institution? [AAG-COL, par. 5.24]	_____	_____	_____
3. Is the governmental level (federal, state, or local) of the legislative body making the appropriation disclosed? [AAG-COL, par. 5.26]	_____	_____	_____
<b>D. Governmental Grants and Contracts</b>			
1. Do governmental grants and contracts include:			
a. All unrestricted amounts received or made available by grants and contracts from governmental agencies for current operations?	_____	_____	_____
b. All amounts received or made available through restricted grants and contracts to the extent expended for current operations? [AAG-COL, par. 5.27]	_____	_____	_____
2. Are amounts equal to direct costs incurred by restricted current funds reported as revenues of those funds? [AAG-COL, par. 5.28]	_____	_____	_____
3. Are amounts equal to associated indirect cost recoveries reported as unrestricted current funds revenues? [AAG-COL, par. 5.28]	_____	_____	_____
4. Is the governmental level (federal, state, or local) of the legislative body making the grant disclosed? [AAG-COL, par. 5.29]	_____	_____	_____
<b>E. Private Gifts, Grants, and Contracts</b>			
1. Do private gifts, grants, and contracts include:			
a. All unrestricted gifts, grants, and bequests from nongovernmental sources (organizations or individuals) and foreign governments?	_____	_____	_____
b. All restricted gifts, grants, and contracts from nongovernmental sources and foreign governments to the extent expended in the current fiscal year for current operations?	_____	_____	_____
c. Income from funds held in revocable trusts or distributable at the direction of the trustees?	_____	_____	_____
(1) Is this income reported as a separate revenue source within private gifts, grants, and contracts? [AAG-COL, par. 5.30]	_____	_____	_____
2. Do private gifts, grants, and contracts exclude revenues derived from contracts and other activities (such as utility services) that are not related directly to instruction, research, or public service? [AAG-COL, par. 5.30]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
3. Are amounts equal to direct costs incurred by restricted current funds reported as revenues of those funds? [AAG-COL, par. 5.31]	_____	_____	_____
4. Are amounts equal to associated indirect cost recoveries reported as unrestricted current funds revenues? [AAG-COL, par. 5.31]	_____	_____	_____
<b>F. Endowment Income</b>			
1. Does endowment income include:			
a. Endowment and similar funds unrestricted income?	_____	_____	_____
b. Endowment and similar funds restricted income to the extent expended for current operations?	_____	_____	_____
c. Income from funds held by others under irrevocable trusts?	_____	_____	_____
(1) Is such income disclosed separately? [AAG-COL, par. 5.32]	_____	_____	_____
2. Does endowment income exclude:			
a. Capital gains and losses on endowment and similar funds?	_____	_____	_____
b. Any portion of the gains of endowment or quasi-endowment funds used for current operating purposes (report them as transfers rather than as revenue)? [AAG-COL, par. 5.34]	_____	_____	_____
3. If endowment fund investments include real estate, is the investment income reported on a net basis after allowing for all costs of operating and managing the properties? [AAG-COL, par. 5.33]	_____	_____	_____
<b>G. Sales and Services of Educational Activities, Auxiliary Enterprises, and Hospitals</b>			
1. Do sales and services of educational activities include:			
a. Revenues incidentally related to the conduct of instruction, research, and public service?	_____	_____	_____
b. Revenues of activities that exist to provide an instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, and the general public? [AAG-COL, par. 5.39]	_____	_____	_____
2. Do sales and services of auxiliary enterprises include goods or services sold to students, faculty, or staff at prices that are directly related to, although not necessarily equal to, the cost of the goods or services? [AAG-COL, par. 5.39]	_____	_____	_____
3. If sales and services to students, faculty, or staff (rather than training or instruction) is the purpose of an activity, is the revenue classified as sales and services of auxiliary enterprises or hospitals? [AAG-COL, par. 5.40]	_____	_____	_____
4. Is hospital revenue classified separately from sales and services of auxiliary enterprises (due to its size and relative financial importance)? [AAG-COL, par. 5.39]	_____	_____	_____
5. Do the sales and services of auxiliary enterprises and hospitals, respectively, exclude restricted revenues from gifts, grants, or endowment income (which should be reported under their respective source categories)? [AAG-COL, par. 5.40]	_____	_____	_____
<b>H. Other Sources</b>			
1. Does this category include all sources of current funds revenue not included in other classifications, such as:			
a. Interest income and gains and losses on investments in current funds?	_____	_____	_____
b. Miscellaneous rentals and sales?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
c. Expired term endowments and terminated annuity or life income agreements, if not material?	_____	_____	_____
(1) If material, are they disclosed separately? [AAG-COL, par. 5.45]	_____	_____	_____
<b>I. Independent Operations</b>			
1. Do independent operations include all revenues from operations that are unrelated to, but that may enhance, the primary missions (instruction, research, and public service) of the institution? [AAG-COL, par. 5.47]	_____	_____	_____
<b>V. Current Funds Expenditures and Transfers</b>			
<b>A. General</b>			
1. Does the institution consider industry practice in classifying expenditures and transfers in its published financial statements?	_____	_____	_____
a. Are expenditures and transfers classified in terms of function, organizational unit, and object, in that order? [AAG-COL, par. 6.08]	_____	_____	_____
b. Are object classifications, either omitted or included as appropriate, based on their usefulness in published financial statements? [AAG-COL, APP. A]	_____	_____	_____
2. If the institution presents a columnar statement of current funds revenues, expenditures, and other changes, are unrestricted and restricted expenditures segregated? [AAG-COL, par. 4.08]	_____	_____	_____
3. Do current funds expenditures include the acquisition cost of capital assets to the extent current funds are budgeted for and used by operating departments for such purposes? [AAG-COL, par. 6.01]	_____	_____	_____
4. Are interdepartmental transactions recorded as an increase in the current fund expenditures of the recipient department and a decrease in the current fund expenditures of the transferring department? [AAG-COL, par. 6.04]	_____	_____	_____
<b>B. Educational and General Expenditures</b>			
1. Instruction			
a. Does instruction include expenditures for:			
(1) All activities that are part of the institution's instruction program?	_____	_____	_____
(2) Departmental research and public service that are not separately budgeted?	_____	_____	_____
(3) Academic administration for which instruction is still an important role of the administrator (e.g., department chairman)? [AAG-COL, par. 6.10]	_____	_____	_____
b. Does instruction exclude expenditures for:			
(1) Remedial and tutorial instruction, which should be student services? [AAG-COL, par. 6.10]	_____	_____	_____
(2) Academic administration when the primary assignment is administration (e.g., academic deans)? [AAG-COL, par. 6.11]	_____	_____	_____
2. Research			
a. Does research include expenditures for activities specifically organized to produce research outcomes, whether commissioned by an agency external to the institution or separately budgeted by an organizational unit within the institution?	_____	_____	_____



	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Does research exclude certain sponsored programs that are not organized to produce research outcomes, such as training grants? [AAG-COL, par. 6.12]	_____	_____	_____
3. Public Service			
a. Does public service include expenditures for activities that are established primarily to provide noninstructional services to individuals and groups external to the institution? [AAG-COL, par. 6.13]	_____	_____	_____
4. Academic Support			
a. Does academic support include funds expended primarily to provide support services for the institution's primary missions (instruction, research, and public service)?	_____	_____	_____
b. If the institution currently charges certain of these expenditures (e.g., computing support) directly to the various operating units, are such expenditures omitted from academic support? [AAG-COL, par. 6.14]	_____	_____	_____
5. Student Services			
a. Does student services include expenditures for:			
(1) Admissions' and registrar's offices?	_____	_____	_____
(2) Those activities whose primary purpose is to contribute to the students' emotional and physical well-being and to their intellectual, cultural, and social development outside the context of formal instruction?	_____	_____	_____
b. Does student services exclude expenditures for:			
(1) Intercollegiate athletics and student health services operated as essentially self-supporting activities?	_____	_____	_____
(2) Informal academic counseling by the faculty? [AAG-COL, par. 6.15]	_____	_____	_____
6. Institutional Support			
a. Does institutional support include expenditures for:			
(1) Central executive-level activities concerned with management and long-range planning of the entire institution?	_____	_____	_____
(2) Fiscal operations?	_____	_____	_____
(3) Administrative data processing?	_____	_____	_____
(4) Space management?	_____	_____	_____
(5) Employee personnel and records?	_____	_____	_____
(6) Logistical activities that provide procurement, storerooms, safety, security, printing, and transportation services to the institution?	_____	_____	_____
(7) Support services to faculty and staff not operated as auxiliary enterprises?	_____	_____	_____
(8) Activities concerned with community and alumni relations, including development and fund raising? [AAG-COL, par. 6.16]	_____	_____	_____
b. Are appropriate allocations of institutional support made to auxiliary enterprises, hospitals, and any other activities not reported under the Educational and General expenditures category? [AAG-COL, par. 6.17]	_____	_____	_____
7. Operation and Maintenance of Plant			
a. Does operation and maintenance of plant include current expenditures for operation and maintenance of facilities and grounds (including utilities, fire protection, insurance, and similar items)?	_____	_____	_____
(1) Are such expenditures presented net of amounts charged to auxiliary enterprises, hospitals, and independent operations?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. Does operation and maintenance of physical plant exclude expenditures made from the institutional plant fund accounts? [AAG-COL, par. 6.18]	_____	_____	_____
<b>8. Scholarships and Fellowships</b>			
a. Do scholarships and fellowships include expenditures in the form of:			
(1) Outright grants to students selected by the institution and financed from current funds, restricted or unrestricted?	_____	_____	_____
(2) Most trainee stipends, prizes, and awards?	_____	_____	_____
(3) Most tuition or fee remissions?	_____	_____	_____
b. Do scholarships and fellowships exclude expenditures in the form of:			
(1) Trainee stipends awarded to individuals not enrolled in formal course work (charge to instruction, research, or public service, as appropriate)?	_____	_____	_____
(2) Student aid awarded on behalf of other parties to recipients that are not selected by the institution (report these funds in the Agency Funds group, rather than the Current Funds group)?	_____	_____	_____
(3) Tuition and fee remissions granted because of faculty or staff status or family relationship of students to faculty or staff (report as staff benefit expenditures in the appropriate functional expenditure category)? [AAG-COL, par. 6.19]	_____	_____	_____
<b>9. Expenditures of Auxiliary Enterprises, Hospitals, and Independent Operations</b>			
a. Are expenditures for auxiliary enterprises, hospitals, and independent operations separately identified and distinguished from transfers? [AAG-COL, par. 6.24]	_____	_____	_____

### C. Transfers

1. Do mandatory transfers include required transfers from either unrestricted or restricted current funds to other fund groups arising out of:			
a. Binding legal agreements related to the financing of educational plant (e.g., amounts for debt retirement, interest, and required provisions for renewals and replacements of plant not financed from other sources)?	_____	_____	_____
b. Grant agreements with agencies of the federal government, donors, and other organizations to match gifts and grants to loan and other funds? [AAG-COL, par. 6.20]	_____	_____	_____
2. Do nonmandatory transfers include:			
a. Transfers from the current funds group to other fund groups made at the discretion of the governing board to serve a variety of objectives, including:			
(1) Additions to loan funds?	_____	_____	_____
(2) Additions to quasi-endowment funds?	_____	_____	_____
(3) General or specific plant additions?	_____	_____	_____
(4) Voluntary renewals and replacements of plant?	_____	_____	_____
(5) Prepayments on debt principal? [AAG-COL, par. 6.21]	_____	_____	_____
b. Retransfers of resources back to current funds? [AAG-COL, par. 6.21]	_____	_____	_____
3. Are mandatory and nonmandatory transfers from auxiliary enterprises, hospitals, and independent operations separately disclosed? [AAG-COL, pars. 6.25 and 6.26]	_____	_____	_____

## VI. Other Additions/Deductions (Current Fund Balances)

A. Are additions/deductions to current fund balances presented separately from revenues/expenditures and transfers? [AAG-COL, pars. 5.48 and 6.35]	_____	_____	_____
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	<u>Yes</u>	<u>No</u>	<u>N/A</u>
B. Do additions to current fund balances include amounts received or made available to the restricted current funds during the reporting period?	_____	_____	_____
1. Are these additions disclosed separately from amounts of restricted funds revenues expended during the period, which are reported in the statement of current funds revenues, expenditures, and other changes? [AAG-COL, par. 5.48]	_____	_____	_____
C. Do deductions from current fund balances include:			
1. Refunds to donors and grantors?	_____	_____	_____
2. Unencumbered or unexpended funds returned or returnable to the state treasury at fiscal year-end, depending on provisions of state statutes or appropriation acts? [AAG-COL, par. 6.35]	_____	_____	_____
<b>VII. Loan Funds</b>			
A. Does this group consist of loans to students, faculty, or staff? [AAG-COL, par. 7.01]	_____	_____	_____
B. Are notes receivable for loans presented at face value less an allowance for doubtful loans? [AAG-COL, par. 7.03]	_____	_____	_____
C. Are all types of loan fund changes reported in the statement of changes in fund balances of loan funds? [AAG-COL, par. 7.05]	_____	_____	_____
D. Is the source of funds available for loan purposes at the balance-sheet date separately identified in the financial statements, such as:			
1. Donor-restricted versus government-restricted loan funds, including funds provided by mandatory transfers required for matching purposes?	_____	_____	_____
2. Unrestricted funds designated as loan funds?	_____	_____	_____
3. Funds returnable to the donor under certain conditions? [AAG-COL, par. 7.07]	_____	_____	_____
E. Did the institution consider separate disclosure in the financial statements for loan funds available to students versus loan funds available to faculty and staff? [AAG-COL, par. 7.08]	_____	_____	_____
F. Is disclosure provided if loan resources for loans to faculty and staff or students and those loans which can be reverted to other purposes are shown separately? [AAG-COL, par. 7.08]	_____	_____	_____
<b>VIII. Endowment and Similar Funds</b>			
A. Are endowment, term endowment, and quasi-endowment funds included? [AAG-COL, par. 8.01]	_____	_____	_____
1. Are annuity and life income funds included, if insignificant in amount?	_____	_____	_____
a. If so, is the caption, "Endowment and Similar Funds" used in the financial statements?	_____	_____	_____
2. If significant, are annuity and life income funds reported in a separate fund group? [AAG-COL, par. 8.06]	_____	_____	_____
B. Is depreciation provided and disclosed for wasting assets held as investments in endowment and similar funds? [AAG-COL, par. 2.21; SFAS 93, par. 5 (AC D40.105)]	_____	_____	_____
C. Is income from endowment and similar funds reported in conformity with any limitations on the use of such income? [AAG-COL, par. 8.18]	_____	_____	_____
D. Are capital gains and losses on investments in endowment and similar funds presented as additions to or deductions from the fund balance (not in current funds revenue)? [AAG-COL, par. 5.34]	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
E. Are fund-raising expenses excluded from endowment and similar funds unless they directly relate to the proceeds of a campaign for this purpose? [AAG-COL, par. 8.19]	_____	_____	_____
(For additional disclosure guidance on endowment income and expired endowment funds, respectively, see Sections IV(F) and IV(H) of this checklist.)			

## IX. Plant Funds

A. Does the plant funds group consist of:			
1. Funds to be used for the acquisition of physical properties for institutional purposes but unexpended at the reporting date?	_____	_____	_____
2. Funds set aside for the renewal and replacement of institutional properties?	_____	_____	_____
3. Funds set aside for debt service charges and for the retirement of indebtedness on institutional properties?	_____	_____	_____
4. Funds spent for and thus invested in institutional properties (e.g., fixed assets)? [AAG-COL, par. 9.01]	_____	_____	_____
B. Did the institution consider combining the assets and liabilities of these four subgroups for reporting purposes (separate fund balances should be maintained)? [AAG-COL, par. 9.02]	_____	_____	_____
C. If unrestricted proceed sales of plant assets are recorded in unexpended plant funds, are they properly disclosed as unrestricted in the financial statements? [AAG-COL, par. 9.03]	_____	_____	_____
D. Are board-designated balances in each of the fund subgroups (except for investment in plant) disclosed separately from externally restricted funds? [AAG-COL, par. 9.06]	_____	_____	_____
E. Is the valuation basis for assets purchased, constructed, or donated adequately disclosed? [AAG-COL, par. 9.19]	_____	_____	_____
F. For long-lived tangible assets, do the financial statements or notes thereto include disclosure of:			
1. Depreciation expense for the period?	_____	_____	_____
2. Balances of major classes of depreciable assets, by nature or function, at the balance-sheet date?	_____	_____	_____
3. Accumulated depreciation, either by major classes of depreciable assets or in total, at the balance-sheet date?	_____	_____	_____
4. A general description of the method(s) used in computing depreciation for major classes of depreciable assets? [SFAS 93, par. 5 (AC D40.105)]	_____	_____	_____

## X. Other Fund Groups

### A. Annuity Funds

1. Is the actuarial method of accounting used?	_____	_____	_____
a. Are assets recorded at cost or fair market value at the date of receipt?	_____	_____	_____
b. Is a liability recorded at the present value of the aggregate liability for annuities payable?	_____	_____	_____
c. When a gift is received, is the present value of the annuities payable credited to the liability account and the remainder to the fund balance?	_____	_____	_____
(1) Are investment income and gains credited to the liability account?	_____	_____	_____
(2) Are annuity payments and losses charged to the liability account?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(3) Is an adjustment made periodically between the liability and the fund balance to record the actuarial gain or loss due to recomputation of the liability? [AAG-COL, par. 10.04]	_____	_____	_____
2. If the statement of changes in annuity fund balances is combined with that of the life income funds, is the statement suitably titled? [AAG-COL, par. 10.10]	_____	_____	_____
<b>B. Life Income Funds</b>			
1. Are the funds accounted for separately (even if they are combined with the annuity funds for reporting purposes)?	_____	_____	_____
a. Are the funds excluded from current funds revenues or expenditures?	_____	_____	_____
b. Upon termination of the life income fund, is the balance transferred to the fund group designated by the grantor?	_____	_____	_____
(1) If the grantor made no designation of the life income fund, is the balance transferred to unrestricted current funds and treated as an unrestricted expired term endowment? [AAG-COL, par. 10.13]	_____	_____	_____
2. When the amounts are not material, are both the annuity and life income funds reported as a subclassification of endowment and similar funds? [AAG-COL, par. 10.14]	_____	_____	_____
<b>C. Agency Funds</b>			
1. If material, are agency funds accounted for as a separate fund group?	_____	_____	_____
a. If immaterial, are they reported as assets and liabilities of current funds? [AAG-COL, par. 10.19]	_____	_____	_____
2. Are the transactions accounted for as charges or credits to the individual asset and liability accounts (versus as transactions of unrestricted or restricted current funds)? [AAG-COL, par. 10.19]	_____	_____	_____
3. Do the basic financial statements include only the assets and liabilities by major type and the net assets held as deposits for others, in lieu of details of transactions? [AAG-COL, par. 10.21]	_____	_____	_____
4. Is a statement of changes in fund balances of agency funds not presented (the credit balances are liabilities)? [AAG-COL, par. 10.22]	_____	_____	_____



# Auditors' Reports Checklist

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

## .02 Explanation of References:

SAS = AICPA Statement on Auditing Standards

AU = Reference to section number in AICPA *Professional Standards* (vol. 1)

AAG-COL = AICPA Audit and Accounting Guide, *Audits of Colleges and Universities* (with conforming changes as of May 1, 1994)

SSARS = FASB Statements on Standards for Accounting and Review Services

AR = Reference to section number in AICPA *Professional Standards* (vol. 2)

## .03 Checklist Questionnaire

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Does the auditor's report include appropriate:			
a. Addressee? [SAS 58, par. 9 (AU 508.09)]	_____	_____	_____
b. Date (or dual dates) of the report? [SAS 1, sec. 530.05 (AU 530.05)]	_____	_____	_____
c. A title that includes the word "independent"? [SAS 58, par. 8a (AU 508.08a)]	_____	_____	_____
2. If the auditor is not independent, is a compilation report the highest level of service performed? [SAS 26, par. 10 (AU 504.10); SSARS 1, pars. 22 and 38 (AR 100.22 and 38)]	_____	_____	_____
3. Does the reporting language conform with the auditor's standard report on:			
a. Financial statements of a single year or period?	_____	_____	_____
b. Comparative financial statements? [SAS 58, par. 8 (AU 508.08); AAG-COL, pars. 12.02—12.05]	_____	_____	_____
4. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [SAS 58, par. 47—48 (AU 508.47—48)]	_____	_____	_____
b. Audited and unaudited financial statements are presented in comparative form? [SAS 26, pars. 14—17 (AU 504.14—17)]	_____	_____	_____
5. Is an explanatory paragraph (or other explanatory language) added to the standard report if:			
a. The financial statements are affected by uncertainties concerning future events, the outcome of which is not susceptible of reasonable estimation at the date of the auditor's report? [SAS 58, pars. 16—33 (AU 508.16—.33)]	_____	_____	_____

**Note:** Consult the Topical Index to the AICPA *Professional Standards* under "Uncertainties" for additional references to specific types of uncertainties.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
b. There is substantial doubt about the institution's ability to continue as a going concern for a reasonable period of time and that conclusion is expressed through the use of the phrase "substantial doubt about its (the institution's) ability to continue as a going concern"? [SAS 64, par. 1 (AU 341.12—.13)]	_____	_____	_____
c. There is a material change between periods in accounting principles or in the method of their application? [SAS 58, pars. 34—36 (AU 508.34—.36)]	_____	_____	_____
d. In an updated report on comparative financial statements, the current opinion on the prior period is different from the one previously expressed? [SAS 58, pars. 77—78 and 81—82 (AU 508.77—.78 and .81—.82)]	_____	_____	_____
e. The prior period financial statements are audited by a predecessor auditor whose report is not presented? [SAS 64, par. 2 (AU 508.83)]	_____	_____	_____
f. The auditor's opinion is based in part on the report of another auditor? [SAS 1, sec. 543 (AU 543); SAS 58, pars. 12—13 (AU 508.12—.13)]	_____	_____	_____
g. The financial statements contain a departure from a promulgated accounting principle when conformity with GAAP would result in a misleading presentation? [SAS 58, pars. 14—15 (AU 508.14—.15)]	_____	_____	_____
h. Other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements? [SAS 8, par. 4 (AU 550.04)]	_____	_____	_____
i. The auditor decides to emphasize a matter in the report? [SAS 58, par. 37 (AU 508.37); Interpretation 38 of SAS 1, sec. 410 (AU 9410.17); Interpretation 1 of SAS 57 (AU 9342.03)]	_____	_____	_____
6. Is a qualified opinion or disclaimer of opinion expressed if scope limitations preclude application of one or more auditing procedures considered necessary in the circumstances? [SAS 58, pars. 40—45 (AU 508.40—.45); SAS 31, par. 22 (AU 326.23); SAS 19, par. 12 (AU 333.12)]	_____	_____	_____
<b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Scope of Audit—Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.			
7. Is a qualified opinion or adverse opinion expressed if a lack of conformity with GAAP (including inadequate disclosure) is present? [SAS 58, pars. 49—66 (AU 508.49—.66); SAS 32, par. 3 (AU 431.03)]	_____	_____	_____
<b>Note:</b> Consult the Topical Index to the AICPA <i>Professional Standards</i> under "Departures from Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion. In addition, the following GAAP departures may be encountered on college and university engagements.			
8. Is a qualified or adverse opinion expressed if:			
a. The institution specifically requests the auditor to report on prior-period financial statements that are incomplete (e.g., prior-period totals only)? [SAS 58, fn. 27 (AU 508, fn. 27)]	_____	_____	_____
b. The institution does not adopt SFAS No. 93, <i>Recognition of Depreciation by Not-for-Profit Organizations</i> ? [AUG-COL, par. 2.22; SAS 58, pars. 49—56 (AU 508.49—56)]	_____	_____	_____
c. There are any improper accounting practices relating to the institution's endowment income stabilization reserve (if used), such as:			
(1) Material amounts of unrestricted funds included in the reserve?	_____	_____	_____

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(2) Material differences between income distributed to the participating funds in the pooled investment account and income earned during the period? [AAG-COL, pars. 4.04 and 4.06]	_____	_____	_____
d. There are any non-GAAP accounting practices under the “total return” approach to endowment fund investment management?	_____	_____	_____
(1) Are endowment fund gains used for general operating purposes reported in the financial statements as revenue (non-GAAP) rather than as a transfer (GAAP)? [AAG-COL, par. 8.13]	_____	_____	_____
9. If a qualified opinion, adverse opinion, or disclaimer of opinion is expressed, are all the substantive reasons for the opinion or disclaimer disclosed and is the reporting language appropriately modified? [SAS 58, pars. 39, 68—69 and 71 (AU 508.39, .68—.69, and .71)]	_____	_____	_____
10. If the auditor is requested to audit Internal Revenue Form 990, “Return of Organizations Exempt from Income Tax,” is the appropriate report prepared? [Interpretation 2 of SAS 62 (AU 9623.47—.54)]	_____	_____	_____
11. If information accompanies the basic financial statements and auditor’s report in an auditor-submitted document, does the report on the accompanying information:			
a. State that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	_____	_____	_____
b. Specifically identify the accompanying information?	_____	_____	_____
c. State that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	_____	_____	_____
d. State whether the accompanying information is subject to the auditing procedures applied in the audit of the basic financial statements and the appropriate expression of opinion or disclaimer? [SAS 29, pars. 6—11 (AU 551.06—.11)]	_____	_____	_____
12. Is the reporting form and content of SAS 60, paragraphs 9—19, followed when communicating internal control structure related matters noted in an audit? <sup>1</sup> [SAS 60, pars. 9—19 (AU 325.09—.19)]	_____	_____	_____
13. Is the reporting form and content of SAS 72 followed for comfort letters submitted to underwriters and other requesting parties on tax-exempt bond offerings? [SAS 72 (AU 634)]	_____	_____	_____

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<sup>1</sup> Reportable conditions in internal control structure that have not been corrected must be communicated, preferably in writing, to senior management and the board of trustees or its audit committee. [SAS 60]

# Auditors' Reports on Audits Performed Under Government Auditing Standards and OMB Circular A-133 Checklist <sup>1</sup>

.01 This checklist has been developed by the staff of the Technical Information Division of the AICPA as a nonauthoritative practice aid.

.02 This checklist has two parts: Part I is for audit reports on audits performed under *Government Auditing Standards* ("Yellow Book"). Part II contains the additional requirements for reports on audits performed in accordance with OMB Circular A-133. For audits performed under Circular A-133, both Parts I and II of this checklist must be completed.

## .03 Explanation of References:

A-133 =	Office of Management and Budget (OMB) Circular A-133
GAS =	<i>Government Auditing Standards</i> ("Yellow Book," issued by GAO, 1988 Revision)
SAS =	AICPA Statement on Auditing Standards
AU =	Reference to section number in AICPA <i>Professional Standards</i> (vol.1)
SOP 92-9 =	AICPA Statement of Position, <i>Audits of Not-for-Profit Organizations Receiving Federal Awards</i>

## .04 Checklist Questionnaire

<u>Yes</u>	<u>No</u>	<u>N/A</u>
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### Part I—Reports on Audits Performed in Accordance with *Government Auditing Standards* (the "Yellow Book")

1. In an audit performed in accordance with the Yellow Book, are the following reports issued:
  - a. A report on the institution's basic financial statements?<sup>2</sup>
  - b. A report on internal control structure?
  - c. A report on compliance with laws and regulations that may have a direct and material effect on the basic financial statements?  
[SOP 92-9, par. 7.2]

_____	_____	_____
_____	_____	_____
_____	_____	_____

<sup>1</sup> On March 8, 1990, The Office of Management and Budget issued Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*, to implement a "single audit" requirement for not-for-profit institutions. Circular A-133 requires that the auditor perform the audit in accordance with *Government Auditing Standards* (the "Yellow Book") issued by the Comptroller General of the United States.

SAS No. 68, *Compliance Auditing Applicable to Governmental Entities and Other Recipients of Governmental Financial Assistance*, provides guidance on planning, performing, and reporting on the compliance aspects of audits in accordance with GAAS, GAO Standards, Circular A-133, and Circular A-128, which applies to state and local governmental entities.

On December 28, 1992, the AICPA issued SOP 92-9, *Audits of Not-for-Profit Organizations Receiving Federal Awards*, to provide guidance on the auditor's responsibilities when conducting an audit in accordance with Circular A-133. It incorporates the guidance in SAS No. 68, SOP 92-7, OMB's October 1991, *Compliance Supplement for Audits of Institutions of Higher Learning and Other Nonprofit Institutions*, and the President's Council on Integrity and Efficiency Standards Subcommittee's Position Statement No. 6 (A-133 Questions and Answers).

<sup>2</sup> See the checklist for auditor's reports on the basic financial statements in FSP section 24,400.





	<u>Yes</u>	<u>No</u>	<u>N/A</u>
12. Are immaterial instances of noncompliance reported in a separate communication to the institution? <sup>5</sup> [SAS 68, pars. 29 and 95 (AU 801.29 and .95); GAS, Chap. 5, par. 8]	_____	_____	_____
13. If a separate letter describing immaterial instances of noncompliance is issued, does the compliance report refer to that letter? [SAS 68, pars. 29 and 30 (AU 801.29 and .30); SOP 92-9, par. 7.16]	_____	_____	_____
14. If the auditor becomes aware of illegal acts or of possible illegal acts, are they communicated to management? [SAS 68, par. 31 (AU 801.31); GAS, Chap. 5, par. 10]	_____	_____	_____
15. If the auditor becomes aware of illegal acts and remains uncertain about whether they materially affect the financial statements, is the report on the financial statements qualified or a disclaimer of opinion issued? [SOP 92-9, par. 7.18]	_____	_____	_____

#### Other Matters

16. If performance audits are required by contractual obligations, are findings presented in accordance with the guidance in the Yellow Book? [GAS, Chap. 2, pars. 6—10]	_____	_____	_____
17. If the auditor is unable to follow an applicable standard and is unable to withdraw from the engagement, does the auditor disclose in the scope section of the report on the financial statements the fact that an applicable standard is not followed, the reasons therefor, and the known effect of not following the standard on the results of the audit? [GAS, Chap. 3, par. 27]	_____	_____	_____
18. Does the auditor's report on the financial statements disclose the status of known but uncorrected significant or material findings and recommendations from prior audits that could have an effect on the current audit objective? [SAS 68, par. 20, fn. 10 (AU 801.20); GAS, Chap. 3, par. 41; SOP 92-9, par. 7.41]	_____	_____	_____
19. Does the auditor consider the impact on his or her report on the financial statements of the effects of noncompliance findings from other simultaneous audits that may result in claims for refunds? [SOP 92-9, par. 7.43; SFAS 5 (AC C59)]	_____	_____	_____
20. Do the reports on compliance and internal control structure carry the same date as the report on the basic financial statements? [SOP 92-9, par. 7.27]	_____	_____	_____

### Part II—Reports on Audits Performed Under OMB Circular A-133

1. If the institution is subject to the requirements of Circular A-133, are the following additional reports issued:			
a. A report on the supplementary schedule of federal awards? <sup>6</sup>	_____	_____	_____
b. A report on the internal control structure policies and procedures used to administer federal awards?	_____	_____	_____
c. A report on compliance with specific laws and regulations that may have a direct and material effect on each major program?	_____	_____	_____
d. A report on compliance with certain laws and regulations applicable to nonmajor programs? <sup>7</sup>	_____	_____	_____

<sup>5</sup> If there are no immaterial instances of noncompliance, the auditor may so note in the report. [SOP 92-9, par. 7.24]

<sup>6</sup> Under Circular A-133, a recipient or subrecipient of an award is required to prepare a schedule of federal awards. A sample schedule and the auditor's report thereon are presented in the Financial Statements section of these checklists and Appendix E of SOP 92-9. [Attachment to Circular A-133, par. 15(c)(1); SOP 92-9, pars. 4.7 and 7.20]

<sup>7</sup> If the institution has no nonmajor programs, or if the auditor has not selected any nonmajor program transactions, this report is not required. [SOP 92-9, par. 7.26]

	Yes	No	N/A
e. A report on compliance with general requirements? <sup>8</sup> [SOP 92-9, par. 7.19]	_____	_____	_____
2. Does each auditor's report listed in Step 1. above contain a statement that the audit was conducted in accordance with GAAP; <i>Government Auditing Standards</i> issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-133? <sup>9</sup> [SOP 92-9, Appendix D, Exhibits D-1, D-2, and D-8 through D-18]	_____	_____	_____
<b>Report on Internal Control Structure Used in Administering Federal Awards</b>			
3. Does the report on the internal control structure used in administering federal awards conform to the standard report illustrated in Exhibit D-8 in Appendix D of SOP 92-9?	_____	_____	_____
4. If the auditor determines that control policies and procedures are likely to be ineffective in preventing or detecting noncompliance, is that matter disclosed as a "reportable condition"? [SOP 92-9, par. 7.23]	_____	_____	_____
5. If the auditor limits his or her consideration of the internal control structure for any reason, are the circumstances disclosed in the report on the internal control structure? [SOP 92-9, par. 7.23]	_____	_____	_____
<b>Report on Compliance With Specific Requirements Related to Major Programs</b>			
6. For audits of major programs, does the report on compliance with specific requirements conform with the standard report illustrated in SAS 68, paragraph 81 (AU 801.81) and in Exhibits D-9 through D-14 in Appendix D of SOP 92-9?	_____	_____	_____
7. If the auditor is disclaiming an opinion due to a scope limitation:			
a. Are the reasons indicated, in a separate paragraph, as to why the audit does not comply with GAAS, the Yellow Book, or OMB Circular A-133?	_____	_____	_____
b. Does the auditor state that the scope of the audit was not sufficient to warrant the expression of an opinion?	_____	_____	_____
c. Does the auditor disclose any reservations he or she has regarding compliance with applicable laws and regulations? [SAS 68, pars. 82 and 84 (AU 801.82 and .84)]	_____	_____	_____
8. If the auditing procedures disclosed instances of noncompliance on major programs:			
a. Does the resulting modification to the auditor's report on compliance consider factors that include:			
1. The number and types of instances of noncompliance?	_____	_____	_____
2. Determinability of questioned costs?	_____	_____	_____
3. Materiality of questioned costs?	_____	_____	_____
b. If, after considering those factors, the auditor concludes that the instances of noncompliance have a material effect on a federal program, is a qualified or adverse opinion issued?	_____	_____	_____
or			
c. If, after considering those factors, the auditor is unable to determine if the instance of noncompliance could have a material effect on the program, does the report state that noncompliance occurred but the effect on the programs presently cannot be determined?	_____	_____	_____

<sup>8</sup> A report on compliance with general requirements is required regardless of whether there are any major programs. [SOP 92-9, par. 7.25]

<sup>9</sup> SOP 92-9, paragraph 7.4, states federal reviewers have accepted reports on the basic financial statements only that do not refer to *Government Auditing Standards*. However, state reviewers and others may insist on full compliance with the "Yellow Book" requirement. Practitioners are advised to determine the requirements of any nonfederal reviewers before deleting the reference to *Government Auditing Standards* in reports on the basic financial statements.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
(1) Is the effect of such uncertainties considered and, if necessary, is the report on the financial statements modified? [SOP 92-9, par. 7.24]	_____	_____	_____
9. If the auditor is unable to examine appropriate evidence to support the comply/noncomply decision, is the report appropriately modified? [SOP 92-9, par. 7.24]	_____	_____	_____
<b>Report on Compliance With General Requirements</b>			
10. Does the report on compliance with general requirements conform to the standard report illustrated in SAS 68, paragraph 52 (AU 801.52) and in Exhibits D-15 through D-17 in Appendix D of SOP 92-9?	_____	_____	_____
<b>Report on Compliance Related to Nonmajor Programs</b>			
11. For nonmajor programs, does the report on compliance conform to the standard report illustrated in SAS 68, paragraph 90 (AU 801.90) and in Exhibit D-18 in Appendix D of SOP 92-9?	_____	_____	_____
<b>General</b>			
12. Does each auditor's report on compliance with laws and regulations include for each federal award:			
a. An identification of total amounts questioned as a result of noncompliance?	_____	_____	_____
b. Any corrective action recommended by the auditor? [SOP 92-9, pars. 7.30 and 7.32]	_____	_____	_____
13. Are any immaterial findings included either (1) in a schedule of findings and costs or (2) in a separate communication to management? [SOP 92-9, par. 7.30]	_____	_____	_____
14. If the audit is biennial, are both years within the period covered? [SOP 92-9, par. 2.47]	_____	_____	_____

# ***Illustrative Financial Statements***

**.01**

## **Independent Auditor's Report**

The Board of Trustees  
Sample University

We have audited the accompanying balance sheets of Sample University as of June 30, 19X1 and 19X0, and the related statements of changes in fund balances and current funds revenues, expenditures and other changes for the year ended June 30, 19X1. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sample University as of June 30, 19X1 and 19X0, and the changes in fund balances, and current funds revenues, expenditures and other changes for the year ended June 30, 19X1, in conformity with generally accepted accounting principles.

[Signature]

[Date]

# SAMPLE UNIVERSITY

.02

## Balance Sheets

June 30, 19X1 and 19X0

<i>Assets</i>	<i>19X1</i>	<i>19X0</i>	<i>Liabilities and Fund Balances</i>	<i>19X1</i>	<i>19X0</i>
Current Funds:			Current Funds:		
Unrestricted:			Unrestricted:		
Cash	\$ 210,000	\$ 110,000	Accounts payable	\$ 125,000	\$ 100,000
Investments	450,000	360,000	Accrued liabilities	20,000	15,000
Accounts receivable, less allowance of \$18,000 both years	228,000	175,000	Students' deposits	30,000	35,000
Inventories, at lower of cost (first-in, first-out basis) or market	90,000	80,000	Due to other funds	158,000	120,000
Prepaid expenses and deferred charges	28,000	20,000	Deferred revenue	30,000	20,000
Total unrestricted	1,006,000	745,000	Fund balance	643,000	455,000
Restricted:			Total unrestricted	1,006,000	745,000
Cash	145,000	101,000	Restricted:		
Investments	175,000	165,000	Accounts payable	14,000	5,000
Accounts receivable, less allowance of \$8,000 both years	68,000	160,000	Fund balances	446,000	421,000
Unbilled charges	72,000	—			
Total restricted	460,000	426,000	Total restricted	460,000	426,000
Total current funds	\$ 1,466,000	\$ 1,171,000	Total current funds	\$ 1,466,000	\$ 1,171,000
Loan Funds:			Loan Funds:		
Cash	30,000	20,000	Fund balances:		
Investments	100,000	100,000	U.S. Government grants refundable	50,000	33,000
Loans to students, faculty, and staff, less allowance of \$10,000 in 19X1 and \$9,000 19X0	550,000	382,000			
Due from unrestricted current funds	3,000	—	University funds:		
Total loan funds	\$ 683,000	\$ 502,000	Restricted	483,000	369,000
			Unrestricted	150,000	100,000
Endowment and similar funds:			Total loan funds	\$ 683,000	\$ 502,000
Cash	100,000	101,000	Endowment and similar funds:		
Investments	13,900,000	11,800,000	Fund balances:		
Total endowment and similar funds	\$14,000,000	\$11,901,000	Endowment	7,800,000	6,740,000
			Term Endowment	3,840,000	3,420,000
Annuity and life income funds:			Quasi-endowment-unrestricted	1,000,000	800,000
Annuity funds:			Quasi-endowment-restricted	1,360,000	941,000
Cash	55,000	45,000	Total endowment and similar funds	\$14,000,000	\$11,901,000
Investments	3,260,000	3,010,000	Annuity and life income funds:		
Total annuity funds	3,315,000	3,055,000	Annuity funds:		
			Annuities payable	2,150,000	2,300,000
			Fund balances	1,165,000	755,000
			Total annuity funds	3,315,000	3,055,000

See accompanying notes to financial statements.

# SAMPLE UNIVERSITY

.02

## Balance Sheets—continued

**June 30, 19X1 and 19X0**

<u>Assets</u>	<u>19X1</u>	<u>19X0</u>	<u>Liabilities and Fund Balances</u>	<u>19X1</u>	<u>19X0</u>
Life income funds:			Life income funds:		
Cash	\$ 15,000	\$ 15,000	Income payable	\$ 5,000	\$ 5,000
Investments	2,045,000	1,740,000	Fund balances	2,055,000	1,750,000
Total life income funds	2,060,000	1,755,000	Total life income funds	2,060,000	1,755,000
Total annuity and life income funds	<u>\$ 5,375,000</u>	<u>\$ 4,810,000</u>	Total annuity and life income funds	<u>\$ 5,375,000</u>	<u>\$ 4,810,000</u>
Plant funds:			Plant funds:		
Unexpended:			Unexpended:		
Cash	275,000	410,000	Accounts payable	10,000	—
Investments	1,285,000	1,590,000	Notes payable	100,000	—
Due from unrestricted current funds	150,000	120,000	Bonds payable	400,000	—
			Fund balances:		
			Restricted	1,000,000	1,860,000
			Unrestricted	200,000	260,000
Total unexpended	<u>1,710,000</u>	<u>2,120,000</u>	Total unexpended	<u>1,710,000</u>	<u>2,120,000</u>
Renewals and replacements:			Renewals and replacements:		
Cash	5,000	4,000	Fund balances:		
Investments	150,000	286,000	Restricted	25,000	180,000
Deposits with trustees	100,000	90,000	Unrestricted	235,000	200,000
Due from unrestricted current funds	5,000	—			
Total renewals and replacements	<u>260,000</u>	<u>380,000</u>	Total renewals and replacements	<u>260,000</u>	<u>380,000</u>
Retirement of indebtedness:			Retirement of indebtedness:		
Cash	50,000	40,000	Fund balances:		
Deposits with trustees	250,000	253,000	Restricted	185,000	125,000
			Unrestricted	115,000	168,000
Total retirement of indebtedness	<u>300,000</u>	<u>293,000</u>	Total retirement of indebtedness	<u>300,000</u>	<u>293,000</u>
Investment in plant:			Investment in plant:		
Land	500,000	500,000	Notes payable	790,000	810,000
Land improvements	1,000,000	1,110,000	Bonds payable	2,200,000	2,400,000
Buildings	29,000,000	28,060,000	Mortgages payable	400,000	200,000
Equipment	19,000,000	17,340,000			
Library books	400,000	380,000	Net investment in plant	<u>38,210,000</u>	<u>36,540,000</u>
Less accumulated depreciation	(8,300,000)	(7,440,000)			
Total investment in plant	<u>41,600,000</u>	<u>39,950,000</u>	Total investment in plant	<u>41,600,000</u>	<u>39,950,000</u>
Total plant funds	<u>\$43,870,000</u>	<u>\$42,743,000</u>	Total plant funds	<u>\$43,870,000</u>	<u>\$42,743,000</u>
Agency funds:			Agency funds:		
Cash	50,000	70,000	Deposits held in custody for others	110,000	90,000
Investments	60,000	20,000			
Total agency funds	<u>\$ 110,000</u>	<u>\$ 90,000</u>	Total agency funds	<u>\$ 110,000</u>	<u>\$ 90,000</u>

See accompanying notes to financial statements.

# SAMPLE UNIVERSITY

.03

## Statement of Changes in Fund Balances

Year Ended June 30, 19X1

	<i>Current Funds</i>		<i>Loan Funds</i>	<i>Endowment and Similar Funds</i>	<i>Annuity and Life Income Funds</i>	<i>Plant Funds</i>			
	<i>Unrestricted</i>	<i>Restricted</i>				<i>Unexpended</i>	<i>Renewal and Replacement</i>	<i>Retirement of Indebtedness</i>	<i>Investment in Plant</i>
Revenues and other additions:									
Unrestricted current fund revenues	\$7,540,000								
Expired term endowment—restricted						\$ 50,000			
State appropriations—restricted						50,000			
Federal grants and contracts—restricted		\$ 500,000							
Private gifts, grants, and contracts—restricted		370,000	\$100,000	\$1,500,000	\$800,000	115,000		\$ 65,000	\$ 875,000
Investment income—restricted		224,000	12,000	10,000		5,000	\$ 5,000	5,000	
Realized gains on investments—unrestricted				109,000					
Realized gains on investments—restricted			4,000	50,000		10,000	5,000	5,000	
Interest on loans receivable			7,000						
U.S. government advances			18,000						
Expended for plant facilities (including \$100,000 charged to current funds expenditures)									1,550,000
Retirement of indebtedness									220,000
Accrued interest on sale of bonds								3,000	
Matured annuity and life income funds restricted to endowment				10,000					
Total revenues and other additions	<u>7,540,000</u>	<u>1,094,000</u>	<u>141,000</u>	<u>1,679,000</u>	<u>800,000</u>	<u>230,000</u>	<u>10,000</u>	<u>78,000</u>	<u>2,645,000</u>
Expenditures and other deductions:									
Educational and general expenditures	4,400,000	1,014,000							
Auxiliary enterprises expenditures	1,830,000								
Indirect costs recovered		35,000							
Refunded to grantors		20,000	10,000						
Loan cancellations and write-offs			1,000						
Administrative and collection costs			1,000						
Adjustment of actuarial liability for annuities payable					75,000				
Expended for plant facilities (including noncapitalized expenditures of \$50,000)						1,200,000	300,000		
Retirement of indebtedness								220,000	
Interest on indebtedness								190,000	
Depreciation of plant and equipment									860,000
Disposal of plant facilities									115,000

See accompanying notes to financial statements.

# SAMPLE UNIVERSITY

.03

## Statement of Changes in Fund Balances—continued

Year Ended June 30, 19X1

	<i>Current Funds</i>		<i>Loan Funds</i>	<i>Endowment and Similar Funds</i>	<i>Annuity and Life Income Funds</i>	<i>Plant Funds</i>			
	<i>Unrestricted</i>	<i>Restricted</i>				<i>Unexpended</i>	<i>Renewal and Replacement</i>	<i>Retirement of Indebtedness</i>	<i>Investment in Plant</i>
Expired term endowments (\$40,000 unrestricted, \$50,000 restricted to plant)				\$ 90,000					
Matured annuity and life income funds restricted to endowment					\$ 10,000				
Total expenditures and other deductions	\$ 6,230,000	\$1,069,000	\$ 12,000	90,000	85,000	\$1,200,000	\$300,000	\$411,000	\$ 975,000
Transfers among funds—additions/(deductions):									
Mandatory:									
Principal and interest	(340,000)							340,000	
Renewals and replacements	(170,000)						\$170,000		
Loan fund matching grant	(2,000)		2,000						
Unrestricted gifts allocated	(650,000)		50,000	550,000		50,000			
Portion of unrestricted quasi-endowment funds investment gains appropriated	40,000			(40,000)					
Total transfers	(1,122,000)		52,000	510,000		50,000	170,000	340,000	
Net increase/(decrease) for the year	188,000	25,000	181,000	2,099,000	715,000	(920,000)	(120,000)	7,000	1,670,000
Fund balance at beginning of year	455,000	421,000	502,000	11,901,000	2,505,000	2,120,000	380,000	293,000	36,540,000
Fund balance at end of year	\$ 643,000	\$ 446,000	\$683,000	\$14,000,000	\$3,220,000	\$1,200,000	\$260,000	\$300,000	\$38,210,000

See accompanying notes to financial statements.



# SAMPLE UNIVERSITY

.04

## Statement of Current Funds Revenues, Expenditures, and Other Changes

Year Ended June 30, 19X1

(With Comparative Figures for 19X0)

	19X1			19X0
	Unrestricted	Restricted	Total	Total
Revenues:				
Tuition and fees	\$2,600,000		\$2,600,000	\$2,300,000
Federal appropriations	500,000		500,000	500,000
State appropriations	700,000		700,000	700,000
Local appropriations	100,000		100,000	100,000
Federal grants and contracts	20,000	\$ 375,000	395,000	350,000
State grants and contracts	10,000	25,000	35,000	200,000
Local grants and contracts	5,000	25,000	30,000	45,000
Private gifts, grants, and contracts	850,000	380,000	1,230,000	1,190,000
Endowment income	325,000	209,000	534,000	500,000
Sales and services of educational departments	190,000		190,000	195,000
Sales and services of auxiliary enterprises	2,200,000		2,200,000	2,100,000
Expired term endowment	40,000		40,000	
Other sources (if any)				
Total current revenues	7,540,000	1,014,000	8,554,000	8,180,000
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	2,960,000	489,000	3,449,000	3,300,000
Research	100,000	400,000	500,000	650,000
Public service	130,000	25,000	155,000	175,000
Academic support	250,000		250,000	225,000
Student services	200,000		200,000	195,000
Institutional support	450,000		450,000	445,000
Operation and maintenance of plant	220,000		220,000	200,000
Scholarships and fellowships	90,000	100,000	190,000	180,000
Educational and general expenditures:	4,400,000	1,014,000	5,414,000	5,370,000
Mandatory transfers for:				
Principal and interest	90,000		90,000	50,000
Renewals and replacements	100,000		100,000	80,000
Loan fund matching grant	2,000		2,000	
Total educational and general	4,592,000	1,014,000	5,606,000	5,500,000

See accompanying notes to financial statements.

# SAMPLE UNIVERSITY

## .04 Statement of Current Funds Revenues, Expenditures, and Other Changes—continued

Year Ended June 30, 19X1

(With Comparative Figures for 19X0)

	19X1			19X0
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>	<i>Total</i>
Auxiliary enterprises:				
Expenditures	\$1,830,000		\$1,830,000	\$1,730,000
Mandatory transfers for:				
Principal and interest	250,000		250,000	250,000
Renewals and replacements	70,000		70,000	70,000
Total auxiliary enterprises	2,150,000		2,150,000	2,050,000
Total expenditures and mandatory transfers	6,742,000	1,014,000	7,756,000	7,550,000
Other transfers and additions/(deductions):				
Excess of restricted receipts over transfers to revenues		45,000	45,000	40,000
Refunded to grantors		(20,000)	(20,000)	
Unrestricted gifts allocated to other funds	(650,000)		(650,000)	(510,000)
Portion of quasi-endowment gains appropriated	40,000		40,000	
Net increase in fund balances	\$ 188,000	\$ 25,000	\$ 213,000	\$ 160,000

See accompanying notes to financial statements.

# **SAMPLE UNIVERSITY**

**.05**

## **Notes to Financial Statements**

**June 30, 19X1**

### **Note 1—Summary of Significant Accounting Policies**

The significant accounting policies followed by Sample University are described below to enhance the usefulness of the financial statements to the reader.

#### **Accrual Basis**

The financial statements of the University have been prepared on the accrual basis. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

#### **Fund Accounting**

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the University, the accounts of the University are maintained in accordance with the principles of "fund accounting." This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Term endowment funds are similar to endowment funds except that, upon the passage of a stated period of time or the occurrence of a particular event, all or part of the principal may be expended. While quasi-endowment funds have been established by the governing board for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund which owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in unrestricted current funds.

All other unrestricted revenue is accounted for in the unrestricted current fund. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

## Note 2—Significant Investment Policies

Investments are recorded at cost; investments received by gift are carried at market value at the date of acquisition. Quoted market values of investments (all marketable securities) of the funds indicated were as follows:

	<u>19X1</u>	<u>19X0</u>
Unrestricted current funds	\$ 510,000	\$ 390,000
Restricted current funds	180,000	165,000
Loan funds	105,000	105,000
Unexpended plant funds	1,287,000	1,600,000
Renewal and replacement funds	145,000	285,000
Agency funds	60,000	20,000

Investments of endowment and similar funds and annuity and life income funds are composed of the following:

	<u>Carrying value</u>	
	<u>19X1</u>	<u>19X0</u>
Endowment and similar funds:		
Corporate stocks and bonds (approximate market, \$15,000,000 in 19X1 and \$10,900,000 in 19X0)	\$13,000,000	\$10,901,000
Rental properties—less accumulated depreciation, \$500,000 in 19X1 and \$400,000 in 19X0	900,000	899,000
	<u>\$13,900,000</u>	<u>\$11,800,000</u>
Annuity funds:		
U.S. bonds (approximate market, \$200,000 in 19X1 and \$100,000 in 19X0)	200,000	110,000
Corporate stocks and bonds (approximate market, \$3,070,000 in 19X1 and \$2,905,000 in 19X0)	3,060,000	2,900,000
	<u>\$ 3,260,000</u>	<u>\$ 3,010,000</u>
Life income funds:		
Municipal bonds (approximate market, \$1,400,000 in 19X1 and \$1,340,000 in 19X0)	1,500,000	1,300,000
Corporate stocks and bonds (approximate market, \$650,000 in 19X1 and \$400,000 in 19X0)	545,000	440,000
	<u>\$ 2,045,000</u>	<u>\$ 1,740,000</u>

Assets of endowment funds, except nonmarketable investments of term endowment having a book value of \$200,000 and quasi-endowment having a book value of \$800,000, are pooled on a market value basis, with each individual fund subscribing to or disposing of units on the basis of the value per unit at market value at the beginning of the calendar quarter within which the transaction takes place. Of the total units each having a market value of \$15.00, 600,000 units were owned by endowment, 280,000 units by term endowment, and 120,000 units by quasi-endowment at June 30, 19X1.

The following tabulation summarizes changes in relationships between cost and market values of the pooled assets:

	<i>Pooled Assets</i>		<i>Net Gains (Losses)</i>	<i>Market Value Per Unit</i>
	<i>Market</i>	<i>Cost</i>		
End of year	\$15,000,000	\$13,000,000	\$2,000,000	\$15.00
Beginning of year	10,900,000	10,901,000	(1,000)	12.70
Unrealized net gains for year			2,001,000	
Realized net gains for year			159,000	
Total net gains for year			<u>\$2,160,000</u>	<u>\$ 2.30</u>

The average annual earnings per unit, exclusive of net gains, amounted to \$.56 for the year.

### **Note 3—Fixed Assets**

Physical plant and equipment are stated at cost at date of acquisition or fair value at date of donation in the case of gifts, except land acquired prior to 1940, which is valued at appraisal value in 1940 at \$300,000. Depreciation on physical plant and equipment is provided on a straight-line basis over the estimated useful lives of the respective assets.

### **Note 4—Long-Term Debt**

Long-term debt includes: bonds payable due in annual installments varying from \$45,000 to \$55,000 with interest at  $5\frac{7}{8}$  percent, the final installment being due in 19Y0, collateralized by trust indenture covering land, buildings, and equipment known as Smith dormitory carried in the accounts at \$2,500,000, and pledged net revenue from the operations of said dormitory; and mortgages payable due in varying amounts to 19Y1, with interest at 6 percent, collateralized by property carried in the accounts at \$800,000 and pledged revenue of the Student Union amounting to approximately \$65,000 per year.

Aggregate maturities of long-term debt are summarized as follows:

19X2	\$ 230,000
19X3	240,000
19X4	250,000
19X5	260,000
19X6	270,000
Thereafter	1,750,000
	<u>\$3,000,000</u>

### **Note 5—Pension and Postretirement Benefit Plans**

The University participates in a defined contribution multiemployer pension plan covering substantially all of its employees. Contributions and cost are determined as 1 percent of each covered employee's salary and totalled \$30,000 for the year ended June 30, 19X1.

The Institution also sponsors a noncontributory defined benefit postretirement health care plan covering substantially all of its employees. The plan is funded by contributing an amount equal to a level percentage of the employees' salaries annually. For the year ended June 30, 19X1, that amount was 4.25 percent, and the contribution for the plan was \$34,000.

The following table sets forth the plan's funded status reconciled with the amount included in the University's balance sheet at June 30, 19X1:

Accumulated postretirement benefit obligation:	
Retirees	\$(187,000)
Fully eligible active plan participants	(100,000)
Other active plan participants	(297,400)
	<u>(584,400)</u>
Plan assets at fair value, primarily listed U.S. stocks and bonds	120,960
Accumulated postretirement benefit obligation in excess of plan assets	<u>(463,440)</u>
Unrecognized net gain from past experience different from that assumed and from changes in assumptions	(40,000)
Prior service cost not yet recognized in net periodic postretirement benefit cost	19,000
Unrecognized transition obligation	470,250
Accrued postretirement benefit cost	<u><u>\$ (14,190)</u></u>

Net periodic postretirement benefit cost for 19X1 included the following components:

Service cost—benefits attributed to service during the period	\$ 15,000
Interest cost on accumulated postretirement benefit obligation	44,400
Actual return on plan assets	(3,960)
Amortization of transition obligation over 20 years	24,750
Net amortization and deferral	1,000
Net periodic postretirement benefit costs	<u><u>\$ 81,190</u></u>

For measurement purposes, a 16 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 19X1; the rate was assumed to decrease gradually to 6 percent for 2020 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by 1 percentage point in each year would increase the accumulated postretirement benefit obligation as of June 30, 19X1 by \$73,000 and the aggregate of the service and interest cost components of net periodic postretirement benefit cost for the year then ended by \$13,000.

The weighted-average discount rate used in determining the accumulated postretirement benefit obligation was 8 percent. The expected long-term rate of return on plan assets after estimated taxes was 6.6 percent.

#### **Note 6—Commitments and Contingencies**

Contracts have been let for the construction of additional classroom buildings in the amount of \$3,000,000. Construction and equipment are estimated to aggregate \$5,000,000, which will be financed by available resources and an issue of bonds payable over a period of 40 years and amounting to \$4,000,000.

At June 30, 19X1, the University has guaranteed bank loans to some of its students totalling \$250,000.

#### **Note 7—Interfund Borrowings**

All interfund borrowings have been made from unrestricted funds. The amounts due to plant funds from current unrestricted funds are payable within one year without interest. The amount due to loan funds from current unrestricted funds is payable currently.

#### **Note 8—Pledges**

Pledges totaling \$260,000, restricted to plant fund uses, are due to be collected over the next three fiscal years in the amounts of \$120,000, \$80,000, and \$60,000, respectively. It is not practicable to estimate the net realizable value of such pledges. Therefore, they are not included in the accompanying financial statements.

## Note 9—Fair Value of Financial Instruments

The University has elected to adopt early FASB Statement No. 107, *Disclosures About Fair Value of Financial Instruments*, for the fiscal year ended June 30, 1991. Information required by Statement No. 107 about investments is included in Note 2 to the financial statements. The following methods and assumptions were used to estimate the fair value of each class of financial instruments, other than investments, for which it is practicable to estimate that value:

### Accounts and Loans Receivable

Included in accounts and loans receivable are long-term receivables of \$500,000 which are non-interest bearing and will not be realized for periods of up to five years. Their fair values are estimated based on an imputed interest rate of — percent.

### Notes, Bonds, and Mortgages Payable

The fair value of notes and mortgages payable is estimated based on rates currently available to the University for loans with similar terms and average maturities. The fair value of bonds payable is based on quoted market prices for the same or similar issues or on the current rates offered to the University for debt of the same remaining maturities.

### Student Bank Loans Payable

The fair value of student bank loan guarantees is based on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

The estimated fair values of the University's financial instruments are as follows:

	19X1		19X0	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans receivable	\$ 500,000	\$ 465,000	\$ 350,000	\$ 340,000
Notes, bonds, and mortgages payable	(3,890,000)	(3,900,000)	(3,410,000)	(3,410,000)
Student bank loan guarantees	—	(75,000)		

## BROWNING VERSION UNIVERSITY

06

### Report on Schedule of Federal Awards<sup>1,3</sup>

#### Independent Auditor's Report

The Board of Trustees  
Browning Version University

We have audited the financial statements of Browning Version University for the year ended June 30, 19X2, and have issued our report thereon dated August 15, 19X2.<sup>2</sup> These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of Browning Version University taken as a whole. The accompanying Schedule of Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

[Signature]

[Date]

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<sup>1</sup> This report is intended to be issued when the auditor's report on the basic financial statements is issued separately. However, the auditor may consider combining the report on the basic financial statements with this report (See exhibit D-2 in SOP 92-9).

<sup>2</sup> Describe any departure from the standard report.

<sup>3</sup> This report is for illustrative purposes only and is not intended to supplement the illustrative auditor's report on the basic financial statements.



# BROWNING VERSION UNIVERSITY

.07

## Schedule of Federal Awards<sup>1,2,3</sup>

For the Year Ended June 30, 1992

<i>Federal Grantor/Pass-through Grantor/Program Title</i>	<i>Federal CFDA Number<sup>4</sup></i>	<i>Agency or Pass-through Number</i>	<i>Federal Expenditures</i>
<b>MAJOR PROGRAMS</b>			
Research and Development:			
U.S. Dept. of Health and Human Services:			
Human Genome Research	93.172		\$ 400,528
General Clinical Research	93.333		863,561
Biomedical Research Support	93.337		450,218
Other National Institutes of Health	—		780,745
Health Resources and Services Administration	—		477,203
Subtotal			<u>2,972,255</u>
U.S. National Foundation on the Arts and Humanities:			
National Endowment for the Humanities	—		56,186
U.S. Agency for International Development	—		80,037
Total Research and Development			<u>3,108,478</u>
Student Financial Assistance:			
U.S. Dept. of Health and Human Services			
Nursing Student Loan (Note A)	93.364		1,000
U.S. Dept. of Education			
Guaranteed Student Loans (Note B)	84.032		0
Pell Grants	84.063		3,006,655
Total Student Financial Assistance			<u>3,007,655</u>
<b>OTHER MAJOR PROGRAMS</b>			
U.S. Dept. of Agriculture:			
Cooperative Extension Service	10.500		3,835,136
Total Major Programs			<u>9,951,269</u>
<b>NONMAJOR PROGRAMS</b>			
Other Federal Assistance:			
U.S. National Foundation on the Arts and Humanities			
Institute of Museum Services	—		10,500
National Endowment for the Arts			
Irish Harp Festival	—		5,100
Art Festival	—		11,900
Subtotal			<u>27,500</u>
Pass-through State Dept. of Health			
U.S. Dept. of Agriculture Commodities (Note C)	10.550	587G3	968
Total Other Federal Assistance			<u>28,468</u>
Total Federal Assistance			<u><u>\$9,979,737</u></u>

<sup>1</sup> Cost sharing, matching, and grant-related revenue could also be added as a separate column to this schedule.

<sup>2</sup> The Bureau of Census, Single Audit Clearinghouse, plans to use the Schedule to compile federal assistance by the CFDA number.

<sup>3</sup> This schedule is for illustrative purposes only and is not intended to supplement the illustrative financial statements of Browning Version University.

<sup>4</sup> CFDA numbers may not be available for all programs (e.g. National Endowment for the Humanities and U.S. Agency for National Development).

## BROWNING VERSION UNIVERSITY

.07

### Schedule of Federal Awards—Continued

Note A: The University administers the following federal loan program:

	<u>CFDA Number</u>	<u>Outstanding Balance at June 30, 19X2</u>
Nursing Student Loan Program	93.364	\$218,629

Total loan expenditures and disbursements of the Department of Health and Human Services student financial assistance program for the fiscal year are identified below:

	<u>CFDA Number</u>	<u>Disbursements</u>
Nursing Student Loan Program	93.364	\$118,629

The above expenditures for the Nursing Student Loan Program include disbursements and expenditures such as loans to students and administrative expenditures. The Schedule only includes administrative costs of the loan program.

Note B: During the fiscal year ending June 30, 19X2, the University processed the following amount of new loans under the Guaranteed Student Loan Program (which includes Stafford Loans, Parents' Loans for Undergraduate Students, and Supplemental Loans for Students):

	<u>CFDA Number</u>	<u>Amount Authorized</u>
Guaranteed Student Loans	84.032	\$40,036,285

Note C: Nonmonetary assistance is reported in the Schedule based on the amount disbursed or received. As of June 30, 19X2, the University had the following nonmonetary inventory:

Food Commodities	\$20,000
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